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LOOKING FOR LOWS IN CORN AND SOYBEAN PRICES

The extremely large U.S. corn and soybean crops of 2004 have pushed cash prices sharply lower. The average cash price of corn in central Illinois has reached the lowest level since the 2000-01 marketing year and cash soybean prices are the lowest since the 2001-02 marketing year.

Historically, lows in cash corn prices in Illinois (and presumably in other corn belt states) have occurred either at the beginning or the end of the marketing year. Over the past 31 years, the marketing year low was established in September or October 14 times and in July or August 14 times. Lows came in November, January, and February one time each. We have come to expect that lows in the cash market come early in the marketing year in years of very large crops, like 2004. The harvest lows reflect low futures prices and a weak basis. The data generally support this belief, but there have been exceptions. New lows in some large crop years have been established late in the marketing year when another large crop was developing.

For the current marketing year, the lowest overnight average cash corn bid reported in central Illinois was \$1.695, established on November 4. That low compares to lows ranging from \$1.45 to \$1.795 during the 1998-99 through 2001-02 marketing years. It now appears that for the current year a seasonal low, or perhaps marketing year low, will be established around the USDA's November *Crop Production* report to be released on November 12. A larger crop forecast would likely push prices below the current low, while an unchanged to smaller forecast would produce a small price increase. A combination of good demand and concerns about the 2005 crop is expected to result in some significant price recovery by the spring/summer of 2005. Of the past 15 years when a price low was reached in the fall, a marketing year high cash price was reached in December one time, April one time, May one time, June 4 times, July 5 times, and August 3 times. The high in those 15 years ranged from \$.445 to \$2.525 above the fall low.

The seasonal pattern of cash price highs and lows for soybeans over the past 31 years has been similar to the pattern for corn. The marketing year low cash price in central Illinois was established in September, October, or November 15 times and in July or August 12 times. The low occurred once each in December, March, April, and June. For the current marketing year,

the lowest cash price was \$4.80, occurring on October 13, 2004. The current cash price is just marginally above that low. The low price to date compares to lows ranging from \$3.875 to \$4.295 during the 1998-99 through 2001-02 marketing years.

Given the size of this year's U.S. crop and prospects for large increases in U.S. and world stocks, there is less confidence that soybean prices have established a seasonal or marketing year low. While the basis has generally been weak, futures prices have been supported by a low rate of soybean sales by producers and the need for processors to refill the pipeline. That combination has resulted in much of the carry being removed from the futures market and November futures being premium to January futures at times. That price structure is highly unusual with such a large crop and storage capacity issues.

The slow pace of soybean sales by producers has been explained by the theory that producers anticipate harvest price lows and a post-harvest price recovery. Sales are being delayed in anticipation of establishing large loan deficiency payments (LDPs) and then holding soybeans for a price recovery. Ironically, the reluctance to sell has prevented prices from declining as much as anticipated so that producers are still waiting for larger LDPs.

In addition to the pace of sales by producers, soybean prices will be influenced by USDA's November 12 *Crop Production* report, the progress of the South American crop, and the pace of Chinese purchases of U.S. soybeans. A sharp break in prices in the next few weeks would increase the confidence that a marketing year low is being established. Like corn prices, early season lows in soybean prices have typically been followed by spring/summer highs. Of the 15 years with fall lows, the highest cash price occurred in March 1 time, May 3 times, June 4 times, July 5 times, and August 2 times. The highs in those years ranged from \$.935 to \$5.13 above the lows. A failure of prices to establish new lows soon would leave the door open for additional price weakness later in the year on the basis of a large South American crop.

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